

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SS-15 SP-02 SAM-01 CIAE-00 DODE-00

INR-07 NSAE-00 PA-01 USIA-06 PRS-01 NSC-05 EB-07

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FM USLO PEKING

TO AMEMBASSY SINGAPORE

INFO SECSTATE WASHDC 5109

AMCONSUL HONG KONG

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E.O.11652: N/A

TAGS: ETRD, EINV, SN, CH

SUBJECT: SALE OF FORD DIESEL ENGINES TO CHINA

REF: SINGAPORE 514; STATE 18870

1. WE AGREE WITH AMBASSADOR HOLDRIDGE THAT FORD SHOULD PROCEED WITH CAUTION UNTIL IT HAS A COMMITMENT FROM CHINA NATIONAL MACHINERY IMPORT AND EXPORT CORPORATION (MACHIMPEX) HEADQUARTERS IN PEKING. IN THIS REGARD A VISIT TO MACHIMPEX BY A FORD OR GOS TEAM WOULD BE A GOOD STARTING POINT FROM WHICH TO JUDGE THE TRUE EXTENT OF CHINESE INTEREST IN THIS PROJECT. WE WOULD STRONGLY ADVISE FORD NOT TO PROCEED WITH THIS PROJECT ON THE BASIS OF AN EXPRESSION OF INTEREST BY A VISITING PRC TRADE DELEGATION. IN SEVERAL PREVIOUS INSTANCES, APPARENT CHINESE INTEREST HAS EVAPORATED WHEN DETAILED PROPOSALS WERE SUBMITTED TO CORPORATION OFFICIALS IN PEKING.

2. FROM OUR EXPERIENCE, WE BELIEVE IT IS HIGHLY UNLIKELY THE CHINESE WILL MAKE A FORMAL COMMITMENT TO BUY ENGINES FROM ANY NON-PRC MANUFACTURING FACILITY REGARDLESS OF ITS LOCATION. IN DEALING WITH WESTERN

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SUPPLIERS, THE CHINESE USUALLY CONSIDER ALL PURCHASES

ON AN INDIVIDUAL BASIS. WE KNOW OF NO INSTANCE WHERE MACHIMPEX HAS MADE A LONG-TERM AGREEMENT WITH A SUPPLIER FOR A GIVEN NUMBER OF MACHINES EACH YEAR. SINCE THE PROPOSED FACILITY HAS NOT BEEN CONSTRUCTED, WE EXPECT THE CHINESE WILL WISH TO WAIT UNTIL IT HAS GONE INTO PRODUCTION AND THEN COMPARE ITS PRODUCTS AND PRICES WITH THOSE OF OTHER SUPPLIERS.

3. IN ITS DEALING WITH THE CHINESE, WE WOULD CAUTION FORD AGAINST MISTAKING EVEN INITIAL ENCOURAGEMENT AS A FIRM COMMITMENT FOR FUTURE PURCHASES. IN ACTUAL PRACTICE THE CHINESE SEEM TO REGARD STATEMENTS MADE PRIOR TO THE SIGNING OF AN AGREEMENT AS TACTICAL, AND SEVERAL U.S. FIRMS HAVE FOUND THAT WHAT THEY TOOK TO BE VERBAL COMMITMENTS WERE ONLY CONSIDERED NEGOTIATING POINTS BY THE CHINESE. ONCE A CONTRACT IS CONCLUDED, HOWEVER, THE CHINESE CAN BE EXPECTED TO FAITHFULLY FULFILL THEIR OBLIGATIONS AS THEY SEE THEM.

4. GIVEN THE RELATIVELY SMALL SIZE OF CHINESE MACHINERY IMPORTS AND THE FACT THAT MACHIMPEX GENERALLY DIVIDES ITS BUSINESS AMONG MANY SUPPLIERS, WE WOULD RECOMMEND THAT FORD MAKE ITS DECISION PRIMARILY ON THE BASIS OF MARKET PROSPECTS IN SINGAPORE AND THE REST OF SOUTHEAST ASIA. CHINA SHOULD BE CONSIDERED AS A POTENTIAL CUSTOMER, BUT ONE WHOSE BUSINESS WILL NOT DETERMINE THE SUCCESS OF THE VENTURE.

5. HAVING SAID THIS WE WOULD STILL ENCOURAGE FORD TO EXPLORE THE POSSIBILITY OF SELLING ENGINES TO CHINA. AS A STARTING POINT, FORD SHOULD SUBMIT A DETAILED PROPOSAL IN WRITING TO MR. HUANG CHING-TANG, MANAGER, THIRD DEPARTMENT, CHINA NATIONAL MACHINERY IMPORT AND EXPORT CORPORATION, ERH LI KOU, HSI CHIAO, PEKING. FOMOCO OFFICIALS SHOULD ALSO TRY TO VISIT PEKING FOR DIRECT DISCUSSIONS WITH THE CORPORATION. IF A FORD TEAM DOES COME TO PEKING FEBRUARY 20-24 AS SUGGESTED IN STATE 18870, WE WILL BE HAPPY TO MEET WITH THEM AND ASSIST IN ANY WAY POSSIBLE.

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